

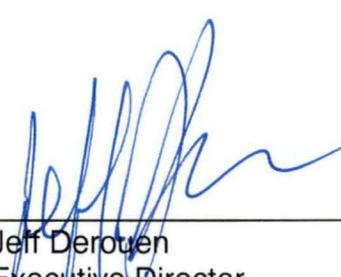
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF WEBSTER COUNTY)
WATER DISTRICT FOR RATE ADJUSTMENT) CASE NO. 2015-00065
PURSUANT TO 807 KAR 5:076)

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of March 26, 2015, the attached report containing the findings of Commission Staff ("Staff") regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to paragraphs 2, 4, and 5 of the Commission's March 26, 2015 Order, Webster County Water District is required to file written comments regarding the findings of Staff no later than June 11, 2015.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED **MAY 28 2015**

cc: Parties of Record

STAFF REPORT
ON
WEBSTER COUNTY WATER DISTRICT
CASE NO. 2015-00065

Webster County Water District ("Webster County") provides water service to approximately 1,994 customers residing in Webster County, Kentucky.¹ It also provides wholesale water service to the cities of Clay, Dixon, and Slaughters. On February 26, 2015, Webster County tendered an application to the Commission pursuant to 807 KAR 5:076 requesting to adjust its retail water service rates. It did not request to adjust its wholesale water service rates.

The requested retail rates would increase the monthly cost of 5,000 gallons of water purchased through a 5/8-inch x 3/4-inch meter from \$41.35 to \$45.31, an increase of \$3.96, or 9.6 percent. Webster County stated that these rates would increase its annual revenues by \$133,373, or 9.6 percent.

Staff performed a limited financial review of Webster County's operations to determine the reasonableness of the requested retail water service rates. The scope of Staff's review was limited to determining whether operations reported for the test-year were representative of normal operations. Known and measurable changes to test-year operations were identified and adjustments were made when their effects were deemed to be material. Insignificant or immaterial discrepancies were not pursued and were not addressed.

¹ *Annual Report of Webster County Water District to the Public Service Commission for the Calendar Year Ended December 31, 2014 ("2014 Annual Report")* at 5 and 27.

Staff's findings are summarized in this report. Ariel Turnbull and Jack Scott Lawless reviewed the calculation of Webster County's Overall Revenue Requirement. Eddie Beavers reviewed revenues and rate design.

Summary of Findings

1. Overall Revenue Requirement and Required Revenue Increase. Staff applied the Debt Service Coverage ("DSC") Method, as generally accepted by the Commission, to determine Webster County's revenue requirement. Using this method, Staff determined that Webster County's current retail water service rates produce revenues that are \$58,213, or 4.20 percent, above the revenue required from retail rates. Accordingly, Staff finds that no retail rate adjustment that would increase revenues is warranted at this time.

2. Depreciation. As discussed in detail in Attachment A, Staff found that Webster County should change the depreciable lives assigned to certain water assets for ratemaking and accounting purposes. Staff further finds that no adjustment to accumulated depreciation or retained earnings should be made to account for the retroactive effect of this recommended change in accounting estimate.

Pro Forma Operating Statement

In accordance with 807 KAR 5:076, Section 9, Webster County based its pro forma operations on the test year ended December 31, 2013.² The pro forma operating statement calculated and presented by Webster County as part of its application is shown below. As shown in Adjustment Col. A of this statement, Webster County

² 807 KAR 5:076, Section 9, requires that "[t]he reasonableness of the proposed rates shall be determined using a twelve (12) month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year."

proposed to adjust many of the test-year revenue and expense accounts to the amounts reported for the 12 months ended September 30, 2014, recognizing that significant changes had occurred to these accounts since the end of the test year. Also, as shown in Adjustment Col. B, Webster County proposed to eliminate non-recurring revenues from test-year operations.

Calculated by Webster County

| | Test Year | Adjustments | | Pro Forma |
|---|------------------|------------------|--------------------|------------------|
| | 2013 | Col. A | Col. B | |
| Operating Revenue | | | | |
| Sales of Water | | | | |
| Metered Water Sales | \$ 1,348,318 | \$ 44,797 | | \$ 1,393,115 |
| Sales for Resale | 299,813 | 73,695 | | 373,508 |
| Other Operating Revenue | | | | |
| Forfeited Discounts | 24,695 | (3,651) | | 21,044 |
| Miscellaneous Service Revenues | 11,093 | (751) | | 10,342 |
| Rents from Water Property | 20,330 | | \$ (15,121) | 5,209 |
| Other Water Revenues | 101,479 | | (97,752) | 3,727 |
| Total Operating Revenue | 1,805,728 | 114,090 | (112,873) | 1,806,945 |
| Operating Expenses | | | | |
| Operation and Maintenance Expenses | | | | |
| Salaries and Wages - Employees | 413,161 | 9,787 | | 422,948 |
| Salaries and Wages - Officers | 18,000 | | | 18,000 |
| Employee Pensions and Benefits | 176,569 | 1,133 | | 177,702 |
| Purchased Power | 149,347 | 25,250 | | 174,597 |
| Chemicals | 177,296 | (16,121) | | 161,175 |
| Materials and Supplies | 99,397 | (18,401) | | 80,996 |
| Contractual Services | 15,394 | | | 15,394 |
| Rents | 306 | | | 306 |
| Transportation | 40,521 | (1,760) | | 38,761 |
| Insurance | 32,180 | | | 32,180 |
| Regulatory Commission Expense | 3,342 | | | 3,342 |
| Miscellaneous Expense | 47,772 | (6,669) | | 41,103 |
| Total Operating and Maintenance Expenses | 1,173,285 | (6,781) | | 1,166,504 |
| Depreciation Expense | 530,495 | 43,129 | | 573,624 |
| Amortization Expense | 20,907 | | | 20,907 |
| Taxes Other Than Income | 33,303 | 789 | | 34,092 |
| Total Operating Expenses | 1,757,990 | 37,137 | - | 1,795,127 |
| Net Operating Income | 47,738 | 76,953 | (112,873) | 11,818 |
| Plus: Interest Income | 3,574 | | | 3,574 |
| Income Available to Service Debt | \$ 51,312 | \$ 76,953 | \$(112,873) | \$ 15,392 |

By making the adjustments shown above in Col. A, Webster County essentially moved the test year forward to the 12 months ended September 30, 2014, but only for selected accounts. Staff agrees that moving the test year forward is appropriate in this instance, given the material changes to the accounts noted by Webster County; however, Staff finds that it is more appropriate to move the test year forward to the 12 months ending December 31, 2014, to coincide with Webster County's 2014 Annual Report, which was filed with the Commission subsequent to the filing of Webster County's application in this matter, but before the date of this report.

The 2014 test year provides the most current audited financial information as the basis for the rates the Commission will authorize for Webster County in this proceeding. While audited financial statements are not essential for ratemaking purposes, they are superior to unaudited financial statements. An audit ensures that proper accounting treatment has been applied to all transactions that are material to the financial statements taken as a whole; but no such assurance accompanies unaudited financial statements. Webster County's Pro Forma Operating Statement for the test-year ended December 31, 2014, as compiled by Staff, appears below.

Calculated by Staff

| | Test Year 2014 | Adjustment (Ref.) | Pro Forma |
|---|-------------------|-------------------|-------------------|
| Operating Revenues | | | |
| Water Sales Revenue | \$ 1,748,353 | \$ 9,732 (A) | \$ 1,758,085 |
| Other Water Revenue | 93,516 | (40,612) (B) | 52,904 |
| Total Operating Revenues | <u>1,841,869</u> | <u>(30,880)</u> | <u>1,810,989</u> |
| Operating Expenses | | | |
| Operation and Maintenance Expenses | | | |
| Salaries and Wages - Employees | 411,394 | 12,594 (C) | 423,988 |
| Salaries and Wages - Commissioners | 18,000 | | 18,000 |
| Employee Pensions and Benefits | 184,230 | | 184,230 |
| Purchased Power for Pumping | 145,906 | | 145,906 |
| Chemicals | 147,041 | | 147,041 |
| Materials and Supplies | 74,030 | | 74,030 |
| Contractual Services - Accounting | 8,000 | | 8,000 |
| Contractual Services - Other | 8,368 | | 8,368 |
| Rental of Equipment | 854 | | 854 |
| Transportation Expenses | 33,177 | | 33,177 |
| Insurance | 32,355 | | 32,355 |
| Advertising Expense | 1,467 | | 1,467 |
| Miscellaneous Expense | 34,162 | | 34,162 |
| Total Operation and Maintenance Expense | <u>1,098,984</u> | <u>12,594</u> | <u>1,111,578</u> |
| Taxes Other Than Income | 33,718 | 3,473 (D) | 37,191 |
| Depreciation | 553,597 | (62,738) (E) | 490,859 |
| Total Operating Expenses | <u>1,686,299</u> | <u>(46,671)</u> | <u>1,639,628</u> |
| Net Operating Income | 155,570 | 15,791 | 171,361 |
| Interest Income | 3,576 | | 3,576 |
| Gains for Disposition of Utility Property | 6,000 | (5,143) (F) | 857 |
| Income Available to Service Debt | <u>\$ 165,146</u> | <u>\$ 10,648</u> | <u>\$ 175,794</u> |

(A) Billing Analysis Adjustment. Webster County provided a billing analysis with its application using a test year of 2013. During the course of this case, a change of the test year to 2014 was made. The revised Billing Analysis for 2014 resulted in total

normalized revenue from retail and wholesale water sales of \$1,758,084, resulting in an adjustment of \$9,731 over revenues as stated in the 2014 Annual Report.

(B) Nonrecurring Revenue. During the 2013 Test Year proposed by Webster County, Webster County reported payments received from an underground coal mining lease in the amount of \$20,330³ and from a class-action law suit settlement agreement in the amount of \$97,752.⁴ In its Application, Webster County proposed to eliminate this revenue from test-year operations stating that no coal mining payments “will be forthcoming beyond 2014” and that the class-action settlement revenue “was a one-time payment.”⁵

In the 2014 Test Year used by Staff, Webster County recognized coal lease revenue in the amount of \$50,765. It is Staff’s opinion that the most appropriate rate treatment would be to amortize the 2014 coal revenue over a five-year period.⁶ This treatment for ratemaking purposes is consistent with the Commission’s common practice of amortizing test-year expenses that are non-recurring. Accordingly, Staff

³ On February 11, 2011, Webster County entered into an underground coal mining lease with Allied Resources, Inc. (“Allied”), pursuant to which Allied would pay Webster County royalties for any coal removed from underneath Webster County’s property. Although the lease had an original term of ten years, Allied mined coal from Webster County’s property only during the years 2013 and 2014.

⁴ Atrazine is a weed killer produced by Syngenta AG. On October 23, 2012, the federal court approved a class-action lawsuit settlement agreement pursuant to which Syngenta AG paid out a total of \$105 million to water providers who had demonstrated that their water supply had been contaminated with Atrazine. Webster County received a one-time payment in the amount of \$97,752 for its share of the settlement.

⁵ Application, Exhibit 4, Schedule of Adjusted Operations, Notes 1 and 2.

⁶ Generally, when there is no evidence to support an alternative amortization period, the Commission amortizes an intangible regulatory asset or liability identified in a rate proceeding over the anticipated life of the rates approved in that proceeding. This life is generally based on the frequency of the utility’s historic rate case filings, but generally does not exceed five years, the longest anticipated life of any water service rate authorized by the Commission. Since Webster County’s most recent rate application was filed 17 years ago in 1998, Staff chose a five-year amortization period.

decreased the 2014 Test Year coal revenue by \$40,612 to account for its five-year amortization as calculated below.

| | |
|--------------------|--------------------|
| 2014 Coal Revenue | \$ 50,765 |
| Divide by: 5 Years | <u>5</u> |
| Total Amortization | 10,153 |
| Less: Test Year | <u>(50,765)</u> |
| Adjustment | <u>\$ (40,612)</u> |

(C) Salaries and Wages – Employees. During the 2014 test year, Webster County reported \$411,394 for Salaries and Wages – Employees expense. During its review, Staff discovered that each Webster County employee received a \$.55 per hour wage rate increase that became effective on January 1, 2015. As shown in the table below, Staff determined that test-year wages expense should be increased by \$12,594 to account for this increase.

| | Current Pay Rate | Regular Hours | Overtime at Regular Rate | Overtime Hours (x1.5) | On Call Payments | Pro Forma |
|-----------------------|---------------------|------------------|--------------------------------|-----------------------------|---------------------|------------------|
| Employee 1 | \$ 35.86 | 2,040 | | | | \$ 73,154 |
| 2 | 25.81 | 2,040 | | | | 52,652 |
| 3 | 20.81 | 2,058 | | 74 | | 45,137 |
| 4 | 18.25 | 2,062 | | 44 | | 38,836 |
| 5 | 20.64 | 2,080 | 33 | 171 | \$ 700 | 49,606 |
| 6 | 20.57 | 2,080 | 41 | 125 | 780 | 48,266 |
| 7 | 19.63 | 2,070 | | 111 | 780 | 44,682 |
| 8 | 17.93 | 2,080 | | 135 | 680 | 41,605 |
| 9 | 14.00 | 2,051 | | 56 | 160 | <u>30,050</u> |
| Pro Forma Wages | | | | | | 423,988 |
| Less: Test Year Wages | | | | | | <u>(411,394)</u> |
| Increase | | | | | | <u>\$ 12,594</u> |

(D) Taxes Other Than Income – Payroll Taxes. Below, Staff calculated Webster County’s pro forma payroll taxes by multiplying the total taxable wages (including Commissioner’s pay) by the payroll tax rate. Accordingly, Staff increased payroll tax expense by \$3,473.

| | Pro Forma |
|--------------------------------------|------------------------|
| Pro Forma Wages | \$ 423,990 |
| Commissioner's Salaries | <u>18,000</u> |
| Total Wages Subject to Payroll Taxes | 441,990 |
| Times: Tax Rate | <u>7.65%</u> |
| Payroll Tax Expense | 33,812 |
| Less: Test Year | <u>(30,339)</u> |
| Adjustment | <u><u>\$ 3,473</u></u> |

(E) Depreciation. Webster County reported \$553,597 for test-year depreciation expense. Staff reviewed all the lives assigned to Webster’s County’s assets used. A summary of this review is found at Attachment A of this report. Based on this review, Staff determined that Webster County’s test-year depreciation should be reduced by \$62,738, as calculated below:

| Asset | Original Cost | Staff Useful Life | Pro Forma |
|---|---------------|-------------------|--------------------|
| Structures and Improvements - Source of Supply | \$ 63,366 | 37.5 | \$ 1,690 |
| Structures and Improvements - Water Treatment | 46,719 | 37.5 | 1,246 |
| Structures and Improvements - Office | 201,833 | 37.5 | 5,382 |
| Structures and Improvements - River Intake Structures | 5,348,163 | 37.5 | 142,618 |
| Structures and Improvements - River Intake | 243,074 | 40 | 6,077 |
| Structures and Improvements - Pumping | 516,232 | 37.5 | 13,766 |
| Electric Pumping Equipment | 185,341 | 20 | 9,267 |
| Reservoirs and Standpipes - Tank Painting | 219,705 | 15 | 14,647 |
| Transmission and Distribution Mains | 7,560,269 | 50 | 151,205 |
| Meters and Meter Installations | 632,213 | 45 | 14,049 |
| Hydrants | 6,610 | 40 | 165 |
| Transportation Equipment | 100,776 | 7 | 14,397 |
| Pro Forma | | | 374,509 |
| Less: Test-Year Depreciation on Assets Listed in the Adjustment | | | <u>(437,247)</u> |
| Decrease | | | <u>\$ (62,738)</u> |

(F) Gain on Sale of Property. During the test year, Webster County recognized a \$6,000 gain on the sale of a service vehicle. Being an asset of a depreciable class, the USoA requires this gain be accounted for using the accumulated depreciation account.⁷ Through this accounting treatment, the depreciable basis of the replacement asset is adjusted to include the amount of the gain. The gain would then be recognized as a component of depreciation expense recorded on the replacement asset in future periods.

In this case, Staff amortized the gain over the seven-year depreciable life assigned to the new service vehicle. This method has the same effect on revenue

⁷ USoA at 42, Account 180.1. B.

requirements as the method prescribed by the USoA. To account for the amortization, the amount of the gain recognized in the test year was reduced by \$5,143.

| | |
|--------------------------|-------------------|
| Gain on Sale of Property | \$ 6,000 |
| Divide by: 7 Years | <u>7</u> |
| Amortization | 857 |
| Less: Test Year | <u>(6,000)</u> |
| Adjustment | <u>\$ (5,143)</u> |

Overall Revenue Requirement and Required Revenue Increase

Webster County and Staff calculated Webster County's overall revenue requirement and required revenue increase using the DSC Method that is generally accepted by the Commission. This method allows for recovery of: 1) cash-related pro forma operating expenses; 2) recovery of depreciation expense, a non-cash item, to provide working capital;⁸ 3) the average annual principal and interest payments on all long-term debts, and 4) working capital that is in addition to depreciation expense. A comparison of Webster County's and Staff's calculations of Webster County's Overall Revenue Requirement and Required Revenue Increase is shown below.

⁸ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds to be used for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky.1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

| | Webster County WD 2013 Test Year | Staff 2014 Test Year |
|--|---|----------------------------|
| Pro Forma Operating Expenses | \$ 1,795,127 | \$ 1,639,628 |
| Plus: Average Annual Principal and Interest Payments | 134,168 | 106,892 |
| Additional Working Capital | 14,597 | 10,689 |
| Overall Revenue Requirement | 1,943,892 | 1,757,209 |
| Less: Other Operating Revenue | (40,322) | (52,904) |
| Interest Income | (3,574) | (3,576) |
| Wholesale Water Revenue | (373,508) | (373,676) |
| Amortization of Gain on Sale of Asset | | (857) |
| Revenue Required From Retail Rates | 1,526,488 | 1,326,196 |
| Less: Pro Forma Present Rate Retail Water Revenues | (1,393,115) | (1,384,409) |
| Revenue Deficiency/(Sufficiency) | \$ 133,373 | \$ (58,213) |
| Percent Increase | 9.6% | -4.20% |

1. Average Principal and Interest Payments. Webster County currently has two outstanding loans payable to the Kentucky Infrastructure Authority (“KIA”). In its Application, Webster County stated that it was requesting recovery of the three-year annual average debt payments that will become due in the years 2015 to 2017 in the amount of \$134,168. It did not provide the calculation of the amount requested.

As discussed in footnote 6, it is Staff’s opinion that the rates authorized by the Commission in this proceeding will likely have a five-year life. To match the debt payments included in Webster County’s revenue requirement with the life of the rates, Staff included the five-year average debt principal and interest payments that will become due during 2015 through 2019. As shown below, Staff’s calculation accounts for the final payment on the 1995J KIA loan that will occur in December 1, 2016.

| Year | Annual Debt Payment |
|--|------------------------|
| 2015 | \$ 135,673 |
| 2016 | 133,001 |
| 2017 | 90,507 |
| 2018 | 88,614 |
| 2019 | <u>86,664</u> |
| Total | 534,458 |
| Divide by: 5 years | <u>5</u> |
| Average Annual Principal and Interest Payments | <u>\$ 106,892</u> |

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is in addition to the amount provided through recovery of Depreciation Expense. The additional working capital is set equal to the minimum net revenues required by Webster County's lenders that are above its average annual debt payments. As shown below, Staff calculated Webster County's allowance for additional working capital to be \$10,689. Staff included this amount in the calculation of Webster County's Overall Revenue Requirement.⁹

⁹ KIA requires that Webster County assess rates for water service that produce net revenues that are equal to at least 110 percent of the average annual principal and interest payments. The DSC ratio measures an entity's ability to pay its cash-related operating expenses and to pay debt principal and interest. KIA calculates the ratio by dividing net revenues by the entity's average annual debt principal and interest payments. Net revenues are equal to total gross revenues less cash-related expenses. Depreciation expense, a noncash operating expense, is excluded from the determination of net revenues. As shown below, the required DSC Ratio is met with and without including the additional allowance for working capital in Webster County's Overall Revenue Requirement.

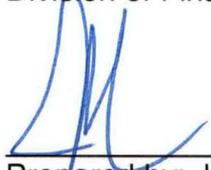
| | With Additional Working Capital | Without Additional Working Capital |
|--|------------------------------------|--|
| Overall Revenue Requirement | \$ 1,757,209 | \$ 1,746,519 |
| Less: Operating and Maintenance Expense | (1,111,578) | (1,111,578) |
| Taxes Other Than Income | (37,191) | (37,191) |
| | <hr/> | <hr/> |
| Net Revenues | 608,440 | 597,750 |
| Divided by: Average Annual Debt Payments | 106,892 | 106,892 |
| | <hr/> | <hr/> |
| DSC Ratio | 569% | 559% |

| | |
|--|------------------|
| Average Annual Principal and Interest | \$ 106,892 |
| Times: DSC Coverage Ratio | <u>110%</u> |
| Total Net Revenues Required | 117,581 |
| Less: Average Annual Principal and Interest Payments | <u>(106,892)</u> |
| Additional Working Capital | <u>\$ 10,689</u> |

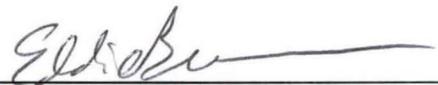
Signatures



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ATTACHMENT A
 STAFF REPORT, CASE NO. 2015-00065
 WEBSTER COUNTY WATER DISTRICT
 ENGINEERING DIVISION'S
 ANALYSIS OF ASSET SERVICE LIVES

Historically, the Commission has relied on the National Association of Regulatory Utility Commissioners Study of Depreciation Practices for Small Water Utilities ("NARUC Study"), dated August 15, 1979, to evaluate the reasonableness of a utility's depreciation practices. This study outlines expected service life ranges for various asset groups designed, installed, and maintained in accordance with good water works practices. Typically, an adjustment is made when the Commission finds that a utility is proposing to use a service life that falls outside of this range, while service lives falling within these ranges are generally accepted.

In the following table, Engineering Staff has identified the account classifications for which the utility's current service lives are not consistent with the service lives contained in the NARUC Study. The table shows the utility's current and Engineering Staff's recommended reasonable and appropriate service lives based on a review of information contained in the record of this case.

| Asset Classification | Current | Staff Recommended | NARUC Study |
|---|----------------|--------------------------|--------------------|
| E-Structure & Improve-Source of Supply (304-0002): 304.2 Structures & Improve, Pumpsite Improvements, Pumpstation-St, Pumpstation-CD. | 30-50 | 37.5 | 35-40 |
| F-Structure & Improve-Water Treatment (304-0003): Improvements, Interconnect Project, Phase III Upgrade | 20, 30 | 37.5 | 35-40 |
| G-Structures & Improvements-Office (304-0005): Building, New Office Building, Improvements | 10-30 | 37.5 | 35-40 |
| I-Structures & Improve-River Intake (304-0007): River Intake Structure, Plant Structure | 50 | 37.5 | 35-40 |
| I-Structures & Improve-River Intake (304-0007): Raw Water Intake, River Intake/Lake, River and Other Intakes | 50 | 40 | 35-45 |
| J-Structures & Improve-Pumping (304-0007): Pump Station-S, C, & Ritz Road | 30 | 37.5 | 35-40 |

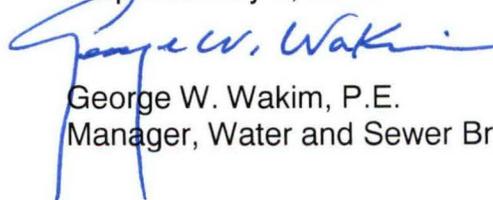
| Asset Classification | Current | Staff Recommended | NARUC Study |
|---|----------------|--------------------------|--------------------|
| L-Electric Pumping Equipment (311-0002): Electric Pumping Equipment, Equipment, Pumping Equipment, Pump & Intake, Pump & Labor, High Service Pump, Motor Pumping Equipment, 60 & 30 HP Motors, Pump Repairs | 10, 50 | 20 | 20 |
| N-Reservoirs and Standpipes (330-0004): Tank Painting, Painting-300,000 Elevated Tank | 20,50 | 15 | * |
| O-Trans & Distribution Mains (311-0004) | 40,50 | 50 | 50-75 |
| P-Meters & Installations (334-0004) | 10 | 45 | 40-50 |
| Q-Hydrants (335-0004) | 10,40 | 40 | 40-60 |
| T-Transportation Equipment (341-0005) | 5 | 7 | 7 |

*Tank painting costs are normally amortized rather than depreciated. As such, service lives of tank paintings are not represented in the NARUC Study.

A portion of the asset groups O and Q have service lives within the NARUC Study range. Adjusting the service lives of the remaining assets in these groups with service lives outside the NARUC Study range to the same service lives of the rest of the assets in these groups, is reasonable.

Absent any specific and verifiable evidence supporting alternative service lives, Engineering Staff finds that service lives based on the NARUC Study, as shown in the above table, should be considered reasonable and appropriate.

Prepared May 8, 2015



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